

**MINUTES OF
CITY OF LAS VEGAS AUDIT OVERSIGHT COMMITTEE
City Hall - 8th Floor Conference Room
400 Stewart Avenue
Las Vegas, Nevada
City of Las Vegas Internet Address: <http://www.lasvegasnevadagov>**

**July 21, 2005
10:00 a.m.**

CALL TO ORDER: Member Brown called the meeting to order at 10:04 a.m. City Clerk Barbara Jo Ronemus announced that the Open Meeting Law had been met.

ATTENDANCE:

Present: Councilman Larry Brown
Councilman Lawrence Weekly
Member Paul Workman
Steve Houchens, Deputy City Manager
John Redlein, City Attorney
Radford Snelding, City Auditor
Bryan Smith, Sr. Internal Auditor
Bill Cimo, Sr. Information Technology Auditor
Gary Philips, Internal Auditor II
Barbara Jo Ronemus, City Clerk
Stacey Campbell, Deputy City Clerk

Excused: Chairman Michael Kern
Member Jose Troncoso

BUSINESS:

1. Approval of the Final Minutes by reference of the Audit Committee Meeting of April 21, 2005.

WEEKLY - Motion to approve – WORKMAN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:04 – 10:04)

1-9

2. Discussion and possible action on the revision of the Audit Oversight Committee Bylaws.

Attorney Redlein explained that pursuant to the resolution which created the Audit Oversight Committee, work began on drafting the bylaws. Language was written as Article 8, which stated that once written, the bylaws would be placed before the City Council for approval. The bylaws were never approved by the City Council; however, they were still effective as there is no language in the resolution indicating City Council approval was required. That resolution states the committee may write bylaws as it sees fit. Also, staff from the Auditor's, City Clerk's and City Attorney's offices met and came up with some recommended changes to the bylaws. One of those

recommendations would amend Article 8 so that City Council approval is not required for changes to the bylaws.

Member Weekly suggested holding the item to the next meeting so that all Committee members may be present for discussion. Member Workman felt it more appropriate to accept the changes to Article 8 immediately, which would make the Committee more effective. Other changes could then be discussed further when all members were present. Member Brown confirmed with Attorney Redlein that upon acceptance of the Article 8 amendments, the Committee would be able to revisit any bylaws at any meeting. Member Brown suggested adopting all amendments as proposed by Attorney Redlein and then the bylaws could be revisited when all members were present.

BROWN - Motion to adopt amended bylaws as presented – WORKMAN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:04 – 10:11)

1-17

3. Discussion and possible action on the appointment of a Vice Chairperson.

Attorney Redlein confirmed the Committee does have authority to select a Vice Chairman. Member Weekly indicated that during the last meeting, the Board agreed on the nomination of Larry Brown as the Vice Chairman. Member Brown thanked the members for their support.

WEEKLY - Motion to appoint MEMBER BROWN as Vice Chairman – WORKMAN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:11 – 10:11)

1-224

4. Discussion and possible action on a review project related to Conflicts of Interest.

Mr. Snelding explained that during the discussion of the 2002-2003 Annual Audit Recommendation Follow Up, Chairman Kern asked that conflicts of interest be further reviewed by audit staff. This item requests approval to open a job to review current and potential conflicts of interest. At the conclusion of the project, a written report would be completed and reviewed with the Audit Committee. Member Weekly confirmed with Mr. Snelding that comments would be forwarded to Chairman Kern.

WORKMAN - Motion to open a job to review current and potential conflicts of interest and to submit a written report for review by the Audit Committee – BROWN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:11 – 10:13)

1-244

5. Discussion and possible action on FY 2005-2006 Audit Plan.

Mr. Snelding explained that an audit plan was sent to the members for the 2005-2006 Fiscal Year. That plan identified performance audits selected for that period. All the entities within the organization will be selected for audits on a risk analysis basis. The City's audit cycle will remain at 15 years. High risk entities will be audited three times within the cycle, medium risks twice and low risk once. Mr. Snelding had previously suggested using a "hot-button" method of determining audit priorities. Upon reviewing that suggestion with the Committee as well as the City Council, it was decided the best method would be to continue with the cyclical method of auditing. The plan would also allow for substitutions upon request by the Mayor, Council or Audit Committee. The plan would also allow for computer assistance on audits, follow-ups, investigations, cash counts and other miscellaneous activities. By approving this plan, the City Auditor's office can initiate these audits without having to return to the Audit Committee for authorization.

Member Brown acknowledged the new position approved for the Auditor's office was being financed by the supplemental budget. He asked that Mr. Houchens be prepared at the next meeting to give a time frame for the recruitment and hiring of Mr. Snelding's newest position.

WORKMAN - Motion to adopt the Audit Plan for Fiscal Year 2005-2006 – WEEKLY seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:13 – 10:16)
1-289

6. General Report by the City Auditor.

Mr. Snelding stated that currently, Mr. Cimo is handling the Credit Card Receipting audit, which is in the field work stage. Mr. Snelding is handling the SafeKey Cash Control audit, which is in the planning stage. The Vehicle Replacement audit is in the field work phase and is being conducted by Mr. Cheng. The Metropolitan Police audit, reviewing of the funding formula, is on hold. Also, 11 investigations are in process and Mr. Phillips is working on those, and, seven control reviews have been completed with memos issued by Mr. Smith and Mr. Phillips.

Mr. Snelding noted that the media attention surrounding the Utilities audit finding relating to unauthorized usage of streetlight circuits prompted the City Manager's office to draft a letter to the newspaper editor. Inconsistencies between the letter and results of the audit were found and are now being investigated. Mr. Snelding indicated he would bring the results of his review back to the Committee.

Also, Chairman Kern had asked Mr. Snelding during a previous meeting to meet with some external auditors. To date, this has not taken place; however, external auditors will be onsite within the next few weeks and months and he will make an appointment

to meet with them. The Committee will get a report from Mr. Snelding on the results of that meeting.

The final item to report pertained to the minimum accounting standards in the Municipal Court Department. The Court Administrator, Mr. Carmany, has requested the Audit Committee assist in performing a review of the minimum accounting standards and a financial review. This was previously accomplished three years ago and Mr. Snelding is working with Mark Vincent, Director, Finance and Business Services, in having the external auditors perform this review. Until it is confirmed who will assist with the review, Mr. Snelding will not request permission to work on the project.

Member Workman asked if Mr. Carmany was comfortable with the current status of his request. Mr. Snelding explained he has spoken with Mr. Carmany, as has Mr. Vincent, and at this point, auditors could not be involved anyway. The courts have to finish their review of the minimum accounting standards before any auditing could commence. He is aware of what is being proposed and is comfortable with it.

Member Brown asked when Mr. Snelding anticipated meeting with the external auditors. Mr. Snelding said it would be as soon as he could arrange a meeting. They are in town at this time and Finance and Business Services has forwarded the results of the audit reports to them for review.

Mr. Vincent did not know the exact date the external auditors would begin their field work for the City, but he is communicating with both Mr. Snelding and the representative from the firm. He assured the Committee that Mr. Snelding will meet with them.

WORKMAN - Motion to accept the report – WEEKLY seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:16 – 10:20)

1-378

7. Discussion and possible action on a Report on Follow-Up Activities.

Mr. Snelding explained that the cut-off date for the annual Audit Recommendation Follow-up Report was June 30, 2005. An attempt was made to get the report compiled and reviewed so it could be available for detailed review; however, there was not adequate time to do so. Mr. Snelding anticipated the report would be finished and ready for detailed review in August 2005. He has received a request to have that report heard by the City Council as soon as the Audit Committee has reviewed it. Because the next quarterly meeting for the Committee is not scheduled until October 2005, he suggested a special meeting be held in August or September for that purpose.

Since the final report was not completed, Mr. Snelding gave an interim report on the follow-up activities. As of June 30th, there were 746 completed recommendations

leaving 125 that remained incomplete. Of those incomplete, 22 cannot be completed due to systems issues and 38 are not yet due. Mr. Snelding reviewed the PowerPoint presentation, which identified complete, partially complete and on-hold recommendations pending systems work. He noted that the current completion rate is approximately 93 percent. Of the seven percent incomplete, four percent are not due yet and three percent cannot be completed due to external factors. The City is doing very well and the continuous review process helps move reports along. The City Manager's office has been very helpful in ensuring that recommendations are implemented.

Mr. Snelding then informed the Committee he wanted to offer several Audit Recommendations for review and possible closure due to various reasons that would be explained as each recommendation was discussed.

He began with a recommendation that the Open Schools Agreement be formally amended to properly reflect the division of responsibility for turf maintenance. It also suggested the Agreement be reviewed and evaluated for equity in responsibility. Upon review, staff has determined the issue is more complex than initially anticipated. The Audit recommendation was based on possible inequities relating to turf maintenance completed by the City at Clark County School District sites. The Open Schools/Open Doors Agreement has not been amended, but the City and other local governments are in negotiations with the School District to address a multitude of issues. Considering the efforts taken by City Management and the improved communication with the School District, the objective of the Audit recommendation has been satisfied. He suggested the recommendations be closed.

Member Brown asked Steve Houchens to report on the status of the discussions regarding this agreement. Mr. Houchens stated this item is one in a group of 12 items being looked at critically as part of the budget cycle. Mark Vincent, Director, Finance and Business Services, said that the review of the agreement with the school district would be all-encompassing and would include track break community schools, safe key and maintenance issues with respect to the fields as well. Member Brown asked Mr. Houchens and Mr. Vincent to make sure the Council members were kept involved once the review was underway so their respective concerns could be consolidated into the process.

BROWN - Motion to close Recommendation D.02.i and D.02.ii of the 1999-10, Department of Leisure Services – Recreation Division – Community Schools – WORKMAN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

The next recommendation suggested that Fleet Services management request changes be made to the Compressed Natural Gas (CNG) fuel tracking system which is used by the City to allow for tracking of CNG fuel usage by both vehicle and individual City employees. During the audit, staff found that each CNG vehicle is assigned a unique CNG dispenser access card with a common PIN number. The vehicle operator was not identified in the system. The audit recommended that a mechanism be put in place to track each operator's usage with the assignment of

unique PIN numbers for the cards. The recommendation could not be completed because the vendor of the CNG system cannot accommodate the request. Considering the vendor system limitations and the limited risk due to the small number of personal CNG vehicles, he suggested the recommendation be closed.

WORKMAN - Motion to close Recommendation 9.2 – Compressed Natural Gas (CNG) Usage Tracking – of the 1503-102-03 Audit of Fleet and Transportation Services – BROWN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

Mr. Snelding then explained the next item to consider for closure related to the physical security of the courts and fireproof safes. The recommendation was given to have fireproof safes in the Municipal Courts. The State requested that fire proof safes be used by the courts back in 1999. In response to this request, Municipal Court represented that they did not have them; however, the court believes that the present safes are adequate along with the fire prevention system at City Hall. The State has not indicated this is an issue. Because the new Regional Justice Center (RJC) will also have a fire prevention system, the Auditor's office requested the recommendation be considered for closure.

Member Weekly noted the delays of the RJC and asked about the cost of placing such safes in the Courts now. Bryan Smith, Sr. Internal Auditor indicated the pricing is being evaluated again. The Courts have recently discovered two safes in their archives that they were not aware of. Although he could not speak to how fireproof those safes were, he was sure the current safes provide some level of fire protection. Member Weekly was concerned that a tragic event could occur before moving to the RJC causing the City to regret not installing fireproof safes.

Member Workman did not understand what prompted the review and asked for more information. Mr. Cimo explained that having fireproof safes is requested in the Minimum Accounting Standards Checklist of the State of Nevada. Every year, the courts file the annual checklist and indicate they do not have fireproof safes but that there are compensating controls with the fire system. Member Workman wondered what systems do other courts have and if the City was the only municipality without the fireproof safes.

Mr. Snelding suggested getting more information before the next meeting and the item could be discussed further at that time.

WORKMAN - Motion to abey to give the City Auditor's office time to further review the situation and provide a more detailed report on the topic at the next meeting – WEEKLY seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

Mr. Snelding indicated the next recommendation was an audit of the Las Vegas Area Computer Traffic System (LVACTS) performance evaluations. The recommendation was that LVACTS file an annual performance report to participating agencies. The City's involvement in LVACTS has changed; the ability to institute change has been

diminished. Public Works and the City of Las Vegas can only suggest that action be taken.

Member Brown asked if the recommendation could be forwarded to the Regional Transportation Commission (RTC) under signature of the City Manager or by Council resolution to formally request that the recommendation be incorporated into the transition. Mr. Houchens stated he would work on that directive.

WORKMAN - Motion to close Recommendation A. 1.2. – Performance Evaluation – of the 1502-0001-05 Audit of Las Vegas Area Computer Traffic System (LVACTS) – WEEKLY seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

The next item also pertained to LVACTS. The audit related to training of LVACTS personnel. The Auditor's recommendation was to create a job responsibility procedure manual and establish a cross-training program. The City's limited ability to make such changes prompted the Auditor's office to bring this item to the Committee for consideration for closure. Member Brown confirmed with Mr. Houchens that the training recommendation could be forwarded to the RTC with the recommendation regarding performance measures.

WORKMAN - Motion to close Recommendation A. 6. 2. – Training – of the 1502-0001-05 Audit of Las Vegas Area Computer Traffic System (LVACTS) – BROWN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

The final recommendation for consideration pertained to an audit review of selected issues in the Neighborhood Services Department. The specific issue of discussion was related to cell phone usage. The recommendation was to provide the subject administrative officer cell phone records to review for additional personal calls. Because that individual has since left City employment and is no longer available to complete the review, the item is up for consideration for closure.

BROWN - Motion to close Recommendation 2.b. – Review of Cell Phone Usage – of the 2300-0304-01 Special Report: Neighborhood Services Review of Selected Issues – WORKMAN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:20 – 10:39)
1-525

8. Discussion and possible action on FY 2005-2006 Budget.

Mr. Snelding reported that as directed by the Committee, he had presented a request at the 2005-2006 Special City Council meeting of May 2, 2005, for the approval of funds for additional resources for his department. One staff auditor was approved to be added in January of 2006 and the consultant budget was increased by \$60,000.

Member Brown asked that Mr. Houchens and Mr. Vincent assist Mr. Snelding to assure he is prepared to recruit for that new position.

BROWN - Motion to accept the report – WORKMAN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:39 – 10:41)

1-1170

9. Discussion and possible action on an Actuarial Study of one of the City's self-insurance funds from 2002-2003 Annual Audit Recommendation Follow-up CAO 2600-0304-05.

Mr. Snelding explained that the actuarial study has been completed and he introduced Vicky Robinson, Manager, Insurance Services Division of the Human Resources Department to discuss the results. Ms. Robinson stated that the original audit finding was to have a systematical actuarial review of the workers compensation insurance fund. Unfortunately, at the time of the recommendation, the computer system being utilized could not provide the actuary information in the requested format. Two actions were taken to help resolve the problem.

Because the claims for presumptive benefits, such as heart, lung, cancer, hepatitis, etc., comprise 40 percent of the annual spending, 90 percent of the reserves but less than five percent of the actual claim count, the division was able to manually develop the requested data. The report culminating that information was made available in May and Mr. Snelding was given a copy.

The second action taken by the department was to search, find and implement a new computer system with a projected "go live" date of August 15, 2005. It will take some time to get the system operational but once online, data necessary to complete the study would be available by the end of the year. The division should be able to provide its own actuarial studies by the end of the first quarter of 2006. Member Workman confirmed with Ms. Robinson that there is no way to further expedite the process.

Ms. Robinson pointed out that there is over 17 million dollars in the reserve fund with an annual cash outflow of about two million dollars. The actuaries that Finance & Business Services has conducted prove the reserves to be adequate at this time.

Member Brown asked if other member agencies were still participating in the study. Ms. Robinson indicated six entities participated: North Las Vegas, Henderson, Metro, Reno, Sparks and the City of Las Vegas.

Mark Vincent, Director, Finance & Business Services explained that it was good to have the heart, lung and hepatitis numbers separate because they constitute the vast majority of the City's exposure in terms of dollars. Those claims also constitute an unfunded mandate by the State Legislature. That is why the City partnered with the other members of the Urban Government Consortium as well as the Las Vegas

Metropolitan Police Department. A consolidated report was prepared in response to the audit recommendation but it could also have been used during the past legislative session in case there was an opportunity to talk about the fiscal impact of the unfunded mandate. The estimated value of the unknown claims will be discussed during his Management Decision and Analysis meeting. It is a tremendous amount of exposure for any entity with police and fire service coverage.

Member Brown questioned the reserve formula for claims. Mr. Vincent indicated the City is fully reserved for all known, current claims. Approximately one million dollars per year is spent on heart, lung and hepatitis claims. That is about 40 percent of the annual spending. As an example of the reserve process, Ms. Robinson noted that if an employee were to break a leg, the reserve would have to cover the hospital, doctor and two or three weeks off from work. For a public safety worker filing for presumptive benefits, the reserve has to cover their lifetime. Depending on the claimant age, that could be between one million and one and a half million dollars. The City has approximately two to four such claims annually.

Member Brown acknowledged that Chairman Kern did have some specific areas of interest regarding this report. He asked that the item be revisited when the Chairman was present.

BROWN – Abey the item to the next meeting of the Audit Oversight Committee to allow Chairman Kern to participate in discussion – WEEKLY seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:41 – 10:51)

1-1214

10. Discussion and possible action on Audit of Woodlawn Cemetery Lease Agreement CAO 1501-0405-06.

Bryan Smith gave a report on this audit. He introduced the acting general manager of Carriage Services, Celena Leal. Mr. Smith explained that in February of 2000, the City entered into a lease agreement with Carriage Services to operate Woodlawn Cemetery. The audit objective was to review the City's and contractor's compliance with the terms of that agreement.

Areas of non-compliance identified during the audit included agreement monitoring and the safekeeping and preservation of books and records. The contractor has not established a set of rules and regulations specific to Woodlawn and has not shared the marketing and operations strategic plan for the facility. The recommendation is that the City Manager's office request the contractor complies with the terms of the agreement. These areas of non-compliance would have been identified sooner if the agreement had been monitored more closely by the City. The recommendation also suggests an employee be designated by the City Manager's office to monitor the agreement and act as a lead contact for the contractor.

He noted that the price of services offered at Woodlawn were also reviewed and compared to Carriage's other cemeteries in the Valley. The results found the pricing to be consistent.

Regarding the books and records for Woodlawn, they are kept in a small building on the cemetery property. Carriage Services has volunteered to put information previously found on manual records into a computerized system. Because the records will transfer to the City upon termination of the agreement, the City must evaluate the adequacy of the records preservation measures and complete an electronic file migration compatibility analysis. Considering the historical nature of these records, the recommendation is to have the City Manager's office coordinate a records safekeeping evaluation by the Records Division of the City Clerk's office, the Risk Management Division in Human Resources and the IT staff. Management stated the issues will be addressed within 60 to 90 days.

Member Brown indicated that the City's new Records Management facility should be able to accommodate the City's storage needs.

Member Weekly agreed that someone should have the oversight responsibility for this site. The issues discussed sounded like communications problem. With limited oversight, there was no one for the contractor to answer to. His office had worked previously with Carriage Services and he found them to be quite responsive.

WORKMAN - Motion to accept the report – BROWN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:51 – 10:58)
1-1605

11. Discussion and possible action on Special Report – Vendor/Employee File Review CAO 2500-0405-07.

Bill Cimo reported that the City's vendor files and employee files were merged and reviewed for conflicts. Different data elements were selected in searching for matches and several were found. He noted that many employees are found on both lists because of compensation received for travel, mileage or job expense reimbursement. Some matches were made by finding similar phone numbers or addresses, which was sometimes caused by family members who had dealings with the City.

There were problems with the data being consistent throughout the departments. All departments have standards in place; however, they vary slightly. The Auditor's office recommended development of more uniform standards so that all departments can work on the same level. Mr. Snelding indicated that the recommendation for compatible data would make the auditing process much easier, but the current methods serve the purposes of each department.

Mr. Cimo continued by saying that there were some instances where employees were utilized outside their employee status without going through a formal process to be

allowed to do so. In these instances, supervisors, directors and purchasing knew of the work being done but the formal process was not adhered to. The Human Resources Department has a form that authorizes an employee to accept employment outside the City. The Auditor's office recommended that the Purchasing and Contracts division establish a document that requires vendors to disclose if they are currently employed by the City.

During the review, a sample quantity of the Outside Employment forms filed with the Human Resources Department was audited. It was discovered that the Director of Human Resources did not sign the forms as required; however, the forms were signed by a Human Resources Manager. He suggested the policy could be amended so that the responsibility of signature was delegated to the managers.

Mr. Snelding concluded by stating the purpose of the audit was to find inappropriate contracting and none was found. The recommendations of the audit were of a housekeeping nature.

Claudette Enus, Director, Human Resources, reported that the policy has been amended since the audit report was issued, and it now provides for the Human Resources Director, or designee, to sign off on the Outside Employment forms. Deputy City Attorney Redlein added that he had drafted the language for the form and Human Resources was kept the central point so the departments would have some consistency. He also explained to Member Brown that the purpose of the form was so conflicts of interest would not occur such as a Planning employee working for a local engineering firm. Also, the forms are monitored to insure the hours of the outside employment are not excessive and will not cause the employee to come to work at the City exhausted, which could result in safety issues.

Member Brown confirmed with Ms. Enus that all employees must fill out this form whether represented or not. Mr. Cimo explained that many of the employees who had not filled out the form were not aware of the necessity of doing so. Ms. Enus said that the new hire orientation form checklist includes the outside employment form to help educate new employees on their obligation to complete the form if necessary.

Mark Vincent, Director, Finance and Business Services, said that the procedure for issuing a purchase order contract has been changed. There is a question on the mandatory vendor profile form asking about relationships of employees or principles in the firm with City employment. If the box is checked, Human Resources will be copied on the form so they can check their database for outside employment forms and review for conflict of interest. This system will be in place by the end of August.

Ms. Enus and Mr. Vincent thanked the Auditor staff members for their assistance during the review.

WORKMAN - Motion to accept the findings of the report – BROWN seconded the motion – UNANIMOUS with KERN and TRONCOSO excused

(10:58 – 11:11)

1-1877

CITIZENS PARTICIPATION:

None.

(11:11)
1-2434

ADJOURNMENT:

The meeting adjourned at 11:11 a.m. (1-2441)

RESPECTFULLY SUBMITTED,

Stacey Campbell, Deputy City Clerk II